



Treasury Chambers, Parliament Street, SW1P 3AG
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11 April 1988

The Rt Hon Nicholas Ridley, AMICE MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1

cc- CST
SIR P MIDDLETON
MR H. PHILLIPS.
MR MCINTYRE
MR BAKER.

Nicholas Ridley

COMMUNITY CHARGE REBATES

Thank you for your letter of 7 April. As you know from our talk before Easter, I well understand the difficulties you are in as a result of Michael Mates' new clause. And I can see why you are attracted by the idea of announcing concessions at Report Stage. But the proposals in your letter do raise considerable difficulties. In particular, they are considerably more expensive than you indicated when we spoke, and they would conflict with our policies of reducing dependence on benefits; they would also weaken accountability.

They would, as you say, cost around £200 million. This would be over and above the £400 million or so we will already be providing through Income Support in compensation for those on benefit who will have to pay 20 per cent of the community charge. It would also be additional to the £1½ billion or more we are likely to spend on the rebate scheme as it stands.

Your proposals will also, as you acknowledged, bring a further 1¼ million individuals and couples within the rebate scheme. This would be on top on the 7 million or so who are currently expected to be entitled to rebates. The proposal would therefore be a major reverse for our policy for reducing dependence on benefits.

A further consideration we need to keep in mind is that your proposals will be seen not only in the context of the community charge but also of the social security reforms. There is a risk



that concessions here will be seen as an acknowledgement that we have been too tough on the poor in the social security reforms and have to retreat on the community charge. This will add to the pressure on us to make concessions elsewhere. And concessions on Housing Benefit will in particular add to the pressure on the capital cut-off.

The increase in the earnings disregard raises particularly difficult problems. It would remove one of the important simplifying features of the new social security system, since it would open up a gap again between the earnings disregard for different benefits. This would inevitably make it more complicated to administer, and would create strong pressures to raise the earnings disregard for the rent element of Housing Benefit and for Income Support as well.

The reduction in the community charge rebate taper also raises difficulties. But if, following our discussion with the Prime Minister and the Chief Whip later today, we are convinced that a concession is necessary, it is in this area I think a move might be least damaging. But I could only accept it on two conditions

- (i) that we stick firmly to our existing decision to raise the rent taper from 65 per cent to 70 per cent in 1989-90; and
- (ii) that we agree to recover the cost of the concession (about £130 million) from a commensurate reduction in the aggregate grant to local authorities in 1990-91. This is fully in the spirit of the Mates clause, since it means that a small amount is added to all community charge bills to finance additional rebates for the less well off.

With your agreement, I am copying this letter and yours to the Prime Minister.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written over a horizontal line.

NIGEL LAWSON



The Rt Hon Nigel Lawson Esq MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

7 April 1988

Dear Nigel

COMMUNITY CHARGE REBATES

When we met before Easter we discussed the impact of the community charge on the less well off. We confirmed that, although Michael Mates' New Clause is nonsense in a large number of respects, nevertheless it has attracted a lot of sympathy from our supporters, probably on two counts: first, that it seemed to provide extra assistance to the less well off; and secondly, that it appeared to "clobber the rich" - at least a little.

On the impact on the less well off, there are a large number of our supporters both in and out of Parliament who share a vague perception that it is "unfair". I think they misdirect their criticism - it is not the community charge which causes this, but the combined effect of all the imposts which occur in moving from benefit to taxpayer levels of income. Nevertheless, our community charge proposals are a focus of this unease which presents itself to our supporters immediately. Also, it is one way of contributing to alleviating this unease to work on this part of the front, as well as facilitating the passage of the Bill.

The right answer to the Mates New Clause is to improve the rebate arrangements, so that they are seen to be "fairer" as well as taking out most of the beneficiaries of Michael's New Clause to the greatest extent possible.

In the wider employment trap context, a DHSS-chaired group of officials is, as you know, already looking at a number of options for improving the housing benefit arrangements. These include less steep tapers and increased earnings disregards, which would raise the level at which the taper starts for people in low-paid employment. The solution to the Mates problem lies, I believe, in making such adjustments to the community charge rebate scheme as well. But we cannot await the outcome of the DHSS Committee because Report on the Local Government Finance Bill is on 18 April; so I think we must proceed on community charge rebates in advance of whatever we decide to do on housing benefit generally.



I therefore propose that I should announce on Report a reduction in the slope of the community charge rebate taper from 20p to 15p, and a £10 increase in the earnings disregard (from £5 to £15 for single people and £10 to £20 for couples).

The cost of these two proposals together would be about £200 million (at 1988/89 prices) in 1990/91. They would mean that about 1½ million individuals and couples received rebates who would not otherwise do so. Of these about ½ million would be single people under retirement age, and about 300,000 would be single pensioners or pensioner couples. (The number of pensioners benefiting is limited because we are operating on earnings disregards - which do not disregard incomes from occupational pensions.)

I would like to have your reaction to these proposals as soon as possible - time is very short if we are to have something to announce at Report. Only a very small number of officials here are involved. If it would help for one of your officials to discuss the contents of this letter the person to contact here is John Adams (212 0961).

John Adams
John

NICHOLAS RIDLEY